

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF PUBLIC UTILITIES

WESTERN MASSACHUSETTS ELECTRIC COMPANY

D.P.U. 08-

TESTIMONY OF

TIMOTHY CLARK

ON BEHALF OF

WESTERN MASSACHUSETTS ELECTRIC COMPANY

October 2, 2008

1 COMMONWEALTH OF MASSACHUSETTS
2 DEPARTMENT OF PUBLIC UTILITIES

3
4 Western Massachusetts Electric Company

5 Testimony of Timothy Clark

6 D.P.U. 08-
7

8 **I. INTRODUCTION**

9 **Q. Please state your name and business address.**

10 A. My name is Timothy Clark. My business address is 107 Selden Street, Berlin
11 Connecticut.
12

13 **Q. By whom are you employed and in what capacity?**

14 A. I am employed by Northeast Utilities Service Company ("NUSCO") as Manager of
15 Revenue Services.
16

17 **Q. Please describe your education and professional background.**

18 A. I have a Bachelor's Degree in Accounting from Bentley College and a Master's
19 Degree in Management from Rensselaer. I have worked for over 25 years for
20 Northeast Utilities system companies including management roles in Internal Audit,
21 Information Technology, Customer Service, Credit and Collection, and Accounting.
22

23 **Q. Please describe your present responsibilities.**

24 A. As Manager of Revenue Services, I am responsible for the accounting for revenue-
25 related activities for Western Massachusetts Electric Company ("WMECO" or
26 "Company") retail operations including accounts receivable. This includes the
27 accounting for accounts receivable related to suppliers. The accounting for the

1 process which will be implemented to purchase supplier receivables will be my
2 responsibility.

3

4 **Q. Have you testified before the Department of Public Utilities (“Department”)**
5 **previously?**

6 A: No, I have not testified before the Department previously in any docket. I have
7 testified on similar purchasing of supplier receivables issues and in other dockets
8 before the Connecticut Department of Public Utility Control.

9

10 **Q. What is the purpose of this testimony?**

11 A. My testimony will describe the Company’s plan for purchasing the receivables of
12 competitive suppliers that have chosen the complete billing method of billing their
13 customers including the Bills Rendered methodology, determining the uncollectible
14 fee, remitting payments to competitive suppliers, determining the payment date,
15 proposed changes to the Terms and Conditions for Competitive Suppliers and other
16 proposed changes..

17

18 **II. BASIS OF FILING**

19 **Q. What is the basis for the Company’s filing?**

20 A. On July 2, 2008, Chapter 169 of the Acts of 2008 (“Green Communities Act” or “Act”)
21 was signed into law. Section 60 of the Act amended the last paragraph of G. L. c.
22 164, § 1D, to require electric distribution companies to pay competitive suppliers that
23 have chosen the complete billing method, the full amounts due from customers for
24 generation services

25 in a time period consistent with the average payment period of the participating
26 class of customer, less a percentage of such amounts that reflects the average of
27 the uncollectible bills for the participating classes.....and other reasonable

1 development, operating or carrying costs incurred, as approved by the
2 [D]epartment.
3

4 Section 103 of the Act requires each electric distribution company to file a
5 compliance plan regarding this provision with the Department, within three months of
6 the effective date of the Act. On September 3, 2008, pursuant to Section 103 of the
7 Act, the Department directed each electric distribution company to file its plan
8 indicating compliance with the last paragraph of Section 1D on October 2, 2008.
9 This testimony is filed in compliance with that directive.

10

11 **III. DESCRIPTION OF COMPANY'S PLAN FOR PURCHASING THE RECEIVABLES**
12 **OF COMPETITIVE SUPPLIERS**

13 **Q. Please describe, in general terms, the Company's plan for purchasing**
14 **receivables from competitive suppliers.**

15 A. WMECO proposes to use a "Bills Rendered" approach to provide payment to
16 suppliers at a regular, pre-defined interval, independent of customers' actual
17 payments. The supplier payment interval will be determined using the elapsed time
18 between customer billing and payment, while taking into consideration the time value
19 of money. The supplier payment amount is based on the energy charge suppliers
20 bill their customers, including any taxes and adjustments, less an uncollectible fee
21 that reflects the average of the uncollectible bills for the participating customer
22 classes of the electric distribution company. It is the uncollectible fee that passes
23 collection risk for the generation portion of the customer bill to the supplier and
24 ensures that the supplier will be paying their portion of the uncollectibles, not the
25 ratepayer.

26

1 It is also important to note that this process applies to all supplier billing done by the
2 Company. WMECO can only support one supplier payment method at any point in
3 time. Therefore, it would need time to transition from its current (Payments
4 Received) method to a Bills Rendered protocol. As a result, WMECO would not be
5 able to fully implement the revised system until the second quarter of 2009.

6
7 **Q. Please provide more detail on the Bills Rendered process.**

8 A. The Bills Rendered Payment process can be broken into two primary components:
9 calculating supplier payments, and remitting supplier payment.

10 The customer's billing and usage information is tracked in WMECO's Customer
11 Service System (CSS). Usage data and supplier rates are used to calculate the
12 supplier's generation portion of the bill. When the customer's account bills, it triggers
13 an Electronic Data Interchange 810 transaction to the supplier with the usage and
14 billing data. Customer generation charges are accumulated by the supplier at the
15 time of billing. A running total of the generation portion billed on behalf of each
16 supplier is accumulated daily until the billing of the last customer in a given month.
17 The accumulated generation charges by supplier are not paid in full. An uncollectible
18 fee is subtracted from the total generation charges billed. The purpose of this fee is
19 to recoup the uncollectibles associated with the generation portion of the customer's
20 bill.

21
22 The funds are transferred to the supplier on a fixed number of days determined by
23 WMECO's revenue lag calendar days following the end of the calendar month billing.
24 .If that day falls on the weekend, payment will occur the next business day. The
25 timing of this payment is based on eliminating carrying costs of funds.

1 **IV. CALCULATING COMPETITIVE SUPPLIER PAYMENTS**

2 **Q. How will the uncollectible fee be determined?**

3 A. WMECO proposes to discount the gross value of the purchased receivables to
4 reflect the average uncollectible expense for the participating customer class of the
5 Company. WMECO proposes to reset the factor annually based on the most recent
6 two calendar year average. Initially, the uncollectible factor will be based on 2007
7 and the first six months of 2008:

2008/2007 Average Discount Factor	
Residential	2.847%
Commercial	0.280%
Industrial	0.040%
Total WMECO	1.702%

8
9 Given the variable nature of this factor, WMECO requests that if a particular
10 supplier's actual losses are substantially above the applicable uncollectible factor,
11 WMECO requests permission to directly bill the supplier for actual losses and
12 proposes thresholds of 5 percent above the approved discount factor or \$25,000
13 (whichever is greater, on an annual basis).

14
15 **Q. Will WMECO be able to calculate the uncollectible fee for each customer**
16 **class?**

17 A. Yes.

18
19 **Q. How frequently will WMECO update its uncollectible fee?**

20 A. Actual loss experience will need to be calculated for each customer class and each
21 supplier on an annual basis from the inception of the program with true ups of losses
22 greater than 5 percent (or \$25,000, whichever is greater) billed to the individual

supplier as necessary. As the program begins, WMECO may not be able to fully segregate write-offs by each supplier. Consequently, we would expect to be able to fully implement this proposal for calendar year 2010.

Q. Can other factors be used in the calculation of the uncollectible fee?

A. Yes, the Act allows distribution companies to include other reasonable development, operating or carrying costs incurred, as approved by the Department.

V. REMITTING PAYMENTS TO COMPETITIVE SUPPLIERS

Q. How will the Company determine the elapsed time between customer billing and repayment?

A. The timing of payments to suppliers where WMECO has billed the customer on the supplier's behalf will be calculated in accordance with Section 60, Section 1D, of the Act. This section states that the distribution company shall:

(a) bill all of the electric supplier's customers in a service class according to complete billing; (b) pay such suppliers the full amounts due from customers for generation services in a time period consistent with the average payment period of the participating class of customer,

For WMECO the timing will be based on WMECO's revenue lag as presented in its rate case working capital analysis in D.T.E. 06-55. In that rate case filing, which ultimately concluded with a settlement, the Company submitted an overall revenue lag of 41.07 days from the midpoint of when service was provided to customers to the day when customers paid their bill.

Q. How is the lag period developed?

A. The lag is developed from a statistical analysis using actual payment history over a 12-month period from a representative random sample of WMECO's customers.

1 The group included a sample of residential, commercial and industrial customers and
2 was based on their usage. The sample of customers must meet certain minimum
3 criteria so as not to bias the statistical analysis. The minimum criteria include: (1) the
4 account must be active; (2) the account must have a minimum of seven months of
5 billing data; (3) the account may not be for a budget plan customer, or low-income
6 special payments customer; and (4) the account may not have any cancel/rebill data.

7

8 **Q. Can you expand on the statistical analysis used?**

9 A. Yes. Consistent with previous lead-lag studies performed by WMECO, a stratified
10 random sample was created. By stratifying based on annualized kWh, bias due to
11 account sizes could be controlled. Population information on this parameter is
12 readily available on company records, and it is seen that revenues are closely
13 correlated to it. Dalenius-Hodges stratification techniques were applied to the most
14 recent file of WMECO customers. Boundaries were created for five strata which also
15 appeared to separate the customer classes. Residential customers fall into the lower
16 strata, industrial accounts fall into the higher strata with commercial accounts falling
17 into the midranges.

18

19 **Q. In general what were the results of the statistical analysis?**

20 A. The results of the sample sizes for each stratum have yielded an overall test
21 accuracy of 95 percent +/- 5 percent. As mentioned earlier, the outcome of the total
22 analysis is that it takes on average 41.07 days for WMECO to receive its revenues
23 from residential, commercial and industrial customers combined.

1 **Q. Have specific customer class results been created from the analysis described**
2 **above?**

3 A. Yes. The statistical analysis performed by the Company was based on a sampling of
4 residential, commercial and industrial accounts. Because the total results were
5 based on the customer classes mentioned above, a class-specific revenue lag can
6 be derived using the same data. As shown below, the results of the class-specific
7 analysis produces similar results to that of the total 41.07 lags days discussed
8 above.

9 The class-specific revenue lags developed from this data are as follows:

Class-Specific Lags	
Residential	40.48 Lag Days
Commercial	42.40 Lag Days
Industrial	40.29 Lag Days

10
11 The Company has not developed a revenue lag for streetlight accounts because the
12 number of overall streetlight accounts is small and not large enough to perform an
13 accurate revenue lag. The Company believes that the commercial lag is an
14 appropriate proxy for streetlight accounts because the majority of this type of account
15 is commercial based. Also streetlight service in general tends to be utilized by
16 municipalities whose accounts are primarily classified as commercial.

17 Consistent with the requirements of Section 60 of the Act, the Company proposes
18 that the timing of payments related to the purchase of supplier receivables be based
19 on class-specific revenue lags provided above.

20
21 **Q. How frequently will WMECO update its revenue lag?**

22 A. WMECO updates its revenue lag as part of its rate case filings. To develop a
23 revenue lag more frequently would not be an effective use of resources because the

1 study itself requires a great deal of time and effort and it is unlikely frequent studies
2 would lead to any significant changes in the number of lag days. In order to perform
3 the study, it takes approximately three months to review customer data, determine
4 the sample population, scrub the sample for any anomalies, perform the statistical
5 analysis, review the statistical analysis and prepare a summary. However, the
6 Company may update its revenue lag more frequently if economic conditions occur
7 that affect or may affect the payment patterns of its customers.

8
9 **Q. How will WMECO determine the actual payment date?**

10 A. In order to determine the actual payment date, WMECO will assume that there is an
11 equal distribution of dollars billed during the month. Using the 15th as the middle of
12 the month, and adding 41 calendar days to this date, payments would occur on the
13 26th of the month (assuming a 30-day month). Therefore, WMECO proposes to pay
14 suppliers on the 26th of each month, unless this day falls on a weekend or Company
15 holiday, in which case the payment will be made the next business day.

16
17 **VI. CHANGES TO TERMS AND CONDITIONS**

18 **Q. What changes does WMECO propose to its Terms and Conditions for**
19 **Competitive Suppliers?**

20 A. To implement this change in a timely manner WMECO proposes to amend the
21 existing Terms and Conditions for Suppliers by deleting the existing language in
22 Section 8B.1 concerning the current payment methodology and replacing it with the
23 following:

24 The Company shall purchase supplier receivables that are billed under the
25 Complete Billing option. Payments for such amounts billed will be remitted to the
26 supplier on a single pre-defined day each month. The payment will be comprised
27 of billed dollars during the calendar month. An uncollectible fee will be

1 subtracted from the accumulated generation charges to recoup the costs
2 associated with uncollectibles and late payments associated with the generation
3 portion of the customer's bill.

4 Upon purchase, the receivables will become Company receivables and
5 customers will become subject to normal utility termination rules for non-payment
6 of these receivables.

7

8

9 **Q. Does WMECO propose changes to the rules governing service termination?**

10 A. No, the rules governing the termination of services will not change as a result of the
11 Bills Rendered payment methodology. WMECO will determine whether a customer
12 will be disconnected due to non-payment of the total bill as the receivable is
13 associated with WMECO only. There is no need to redefine the rules governing
14 termination of service, as suppliers do not have the authority to request that
15 customers be disconnected. Instead, a supplier can simply terminate their contract
16 with the customer and the customer would be returned to standard service.

17

18 **Q. How will suppliers who offer pass-through billing be affected?**

19 A. If a supplier opts for pass-through billing, i.e., the supplier issues a bill for generation
20 services, the supplier will be responsible for all credit and collection activity on these
21 generation services bills and these receivables will not be purchased by the
22 Company.

23

24 **Q. Is WMECO proposing other changes?**

25 A. Yes. Security deposits for all eligible customers will be calculated including supplier
26 generation costs because the associated receivable balance will be owned by
27 WMECO and WMECO will have the responsibility to collect such amounts. Security
28 deposits have been an effective means for mitigating the risk of loss due to business

1 failure and will continue to be pursued. Non-cash alternatives will be considered as
2 appropriate.

3

4 **Q. Are there details that remain to be worked out?**

5 A. Yes, there are many details still to be worked out including how to manage the
6 transition between a "cash received" basis to an "as billed" basis. WMECO
7 proposes to purchase existing receivables at the composite discount rate in effect at
8 the time of purchase and to lag the payment for those receivables based on the
9 composite lag of 41 days subject to the same actual loss factor issues discussed
10 above.

11

12 **Q. When will WMECO propose to implement this process?**

13 A. WMECO believes the above described process can be implemented by the second
14 quarter of 2009. The Company will implement a new customer service system in
15 mid-October 2008 and will require some period of time to insure system stability.

16

17 **Q. Does this conclude your testimony?**

18 A. Yes.